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| Finance and Administration Cabinet STANDARD PROCEDURE | PAGE: 1 OF 3 |
| ISSUED BY: Revenue Executive Management | |
| EFFECTIVE DATE: August 22, 2005 | |
| PROCEDURE # 6.1.4 (formerly KRC procedure #1.8) | |
| SUBJECT: Conflicts of Interest and Professional Standards | |
| DISTRIBUTION CODE: A, B, C, D | CONTACT: Commissioner's Office, Station #1 (502) 564-4444 or (502) 564-4456 |

I. PURPOSE

In order to fairly and impartially administer the tax laws of the Commonwealth and maintain the highest degree of public confidence in the integrity of the Department of Revenue, all department employees will be held to the highest professional standards. As such, all employees are expected to abide by the very tax laws which they are charged with enforcing, and they must avoid even the appearance of a conflict of interest.

To ensure compliance with this policy, the Department of Revenue will conduct periodic reviews of employees' tax returns. In addition, the Department of Revenue will conduct other compliance programs as deemed necessary.

II. RULES OF CONDUCT

To assist employees in their understanding of what constitutes acceptable behavior in discharging their duties, the following shall be the rules of conduct for the Department of Revenue:

A. Compensation for Activity Outside the Department of Revenue

No employee of the Department of Revenue shall receive compensation for activity outside the agency, which involves the preparation of federal, Kentucky, or local tax returns or the preparation of primary business records which form the basis for such returns; the performance of real estate appraisals; or the performance of any other tax planning service (e.g., an employee may not operate a bookkeeping or tax return preparation business, work as a tax return preparer for a CPA, attorney, or private tax preparation company); perform fee appraisals; or draft wills or other legal documents in which tax planning is an important consideration.

B. Notification in Writing of Activities without Compensation

Except as provided herein, a Department of Revenue employee who, without compensation, prepares tax returns or primary business records for others, performs real estate appraisals, or provides any other tax planning service, must promptly notify his/her immediate supervisor in writing of the services provided, including the name(s) and identification number(s) of the taxpayer(s) involved. The supervisor shall then forward the written notification to the employee's division director who shall maintain a file of the notifications. However, reporting of taxpayers' names is not required for any services performed without compensation in connection with charitable or civic groups, (e.g., VITA).

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In such cases, the written notice should only indicate when and where the returns were prepared and the name of the charitable or civic group involved.

C. Filing of Employee's Tax Returns

All employees of the Department of Revenue must properly file all personal and business tax returns and pay all personal and business uncontested tax liabilities by the prescribed due date, or the due date as extended by the appropriate taxing authority including, but not limited to, federal income tax and state and local property taxes.

D. Access to Employee and Family Member Tax Returns

Department of Revenue employees shall not for any reason obtain copies or access their own personal returns or returns of any members of their families. In the event that an employee needs to refer to such records, the employee should contact their supervisor to retrieve the records. In addition, the employee must immediately contact their supervisor if such tax returns were obtained in error.

E. Licensing of Employee's Vehicles

All employees of the Department of Revenue must timely and properly license all their motor vehicles; and timely pay all motor vehicle usage tax and property taxes.

F. Acceptance of a Gift, Favor, Service, Loan, Entertainment or Other Benefit

Except as provided herein, no employee of the Department of Revenue may request or accept a gift, favor, service, loan, entertainment or other benefit for themselves or others under circumstances that might reasonably be construed as influencing performance of the employee's official duties for the Department of Revenue. Any such gift, favor, etc. must be refused or, if received, returned to the donor (e.g., a CPA or attorney, with whom a Department of Revenue employee is sometimes involved in settling taxpayer protests, sends the employee a case of wine for Christmas or makes an offer for the employee's free or discounted use of a taxpayer's Florida vacation home).

It is permissible for Department of Revenue employees to accept nominal courtesies extended in a spirit of hospitality (e.g., an employee who is a speaker, participant, or guest at a civic club meeting may accept a meal, token honorarium, certificate, plaque, cup, or similar memento awarded for the employee's contribution to a successful program; or a member of the Department of Revenue's softball team may accept a trophy and a gift certificate for winning the state league championship).

G. Use of Official Department of Revenue Credentials (ID Card)

Except for obtaining memberships, discounts, etc., available to all state employees, no employee may use his/her official Department of Revenue credentials (ID card) for any

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purpose other than in connection with the employee's official job duties, e.g., in establishing identity or authority. The credentials may not be used to exert influence or obtain privileges, favors, or rewards for any employee or others, or to improperly enhance the employee's prestige, (e.g. an employee intentionally showing his/her Department of Revenue credentials to a traffic officer in an attempt to intimidate the officer into not issuing a traffic citation to the employee).

III. PENALTIES FOR VIOLATIONS

The appropriate executive director or the Department of Revenue Commissioner (if necessary), and the Appointing Authority will determine the appropriate disciplinary action for a violation of this Conflicts of Interest and Professional Standards Policy. The following factors will be taken into account:

- The nature of the violation
- The employee's position at the time of the violation. An employee directly involved in the administration or enforcement of the tax laws or who has a higher level of expertise concerning those laws will be held to a higher standard than an employee not directly involved in the administration or enforcement of the tax laws or who has a lower level of expertise concerning those laws. For example, a tax consultant or a program officer who fails to timely or properly file his or her tax returns may be subject to a harsher penalty than a clerk or a maintenance person.
- Prior violations. A relatively minor violation of this policy may be grounds for a stricter penalty, if an employee has a prior history of one or more violations.
- Extenuating circumstances. Such circumstances may include personal or family problems or the fact that the violation was voluntarily disclosed by the employee prior to being discovered by the Department of Revenue.
- The employee's intent. For example, if an employee violates a tax law of which he or she is unaware, the Department of Revenue may consider taking no disciplinary action other than counseling and educating the employee.
- Any other information which may assist the Department of Revenue in reaching a just and fair determination.

NO STANDARD PROCEDURE MAY BE REVISED BY ADDENDUM, MEMORANDUM OR ANY OTHER MEANS OTHER THAN THOSE SET OUT IN STANDARD PROCEDURE #1.1 ENTITLED "CREATION, REVISION AND RESCISSION OF FINANCE AND ADMINISTRATION CABINET POLICIES AND PROCEDURES"

DISTRIBUTION CODES:

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